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Book Review: John H. Dunning Multinational Enterprises and the Global Economy

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Book Review

John H. Dunning (1993), *Multinational Enterprises and the Global Economy*, Addison Wesley. 687 pages. £34.95 (UK) US \$74.85 (Europe)

To quote from page xiii: "This volume is intended to accomplish two main objectives. First, it aims to present a fairly detailed, but broadly based, survey of the history and present day role of multinational enterprises (MNEs) in the global economy. Second, the monograph seeks to couch its descriptive and analytical contents within a uniform and consistent conceptual framework." In terms of these goals the book is quite successful.

Part One of the volume offers six authoritative survey chapters which trace the evolution of MNE and the global economy. They provide a useful framework against which the subsequent chapters may be set. The conceptual framework applied is Dunning's well-known "eclectic or OLI Paradigm" of MNE. Dunning's paradigm convincingly suggests that the configuration of the Ownership, Location and Internalization (OLI) advantages facing a particular firm permits certain, generalized predictions regarding the extent of its multinationality. In addition to the above three conditions Dunning has now placed additional emphasis on a fourth condition: long-term management strategy.

Looking ahead to Chapter 10, the new element in this volume is Dunning's extension of his eclectic paradigm to include four supplementary paradigms: Porter's (1990) "diamond of competitive advantage", Koopman's and Montias' (1971) Environmental, System and Policy Paradigm (ESP), the technological asset-accumulation paradigm of Pavitt (1987) and Cantwell (1989) and the stages of growth paradigm of Rostow (1959) in its modern version of Ozawa (1991, 1992). Based upon these additional complementary frameworks Dunning's eclectic approach now incorporates within its analytical framework macro-organizational policies and development strategies pursued by nations that affect the activities and effectiveness of MNEs. As Dunning p. 270 points out, "...countries differ from each other in respect of their stage of development and propensity to attract international business, according to their *environment* (E), *economic systems* (S) and *government policies* (P)." The interlinking aspects of the more static oriented OLI theory in its original formulation with a more dynamic view of innovative

processes in which MNEs along with Nation States are among the main contributors based upon the above mentioned complementary paradigms is a rather important insight which deserves due reflection. By taking a more holistic approach, there has been a paradigm shift in the approach taken to include a priori foreign direct investment demand side considerations of Nation States. The mastery of demand factors requires a sensitivity by the state to the structure and possibilities of world markets, an entrepreneurial sensibility. Strategic aspects of multinationality *per se* are now beginning to receive attention from "entrepreneurial" Nation States. This is basically due to the fact that the distinctive ownership-specific advantages of MNEs and Nation States now reside more in their ability to *create*, acquire and effectively organize the use of resources and competences across national boundaries, and less in the privileged possession of specific proprietary assets (Dunning, p. 605) as much of the earlier literature on MNEs emphasizes and Factor Abundance Theory would suggest. *Created* asset endowments now play a central role in any attempt to understand the parallel growth and emergence of globally-oriented economic policies among Nation States as well as among enterprises. As Dunning (p. 612) emphasizes, "Increasingly, too, governments are beginning to view their role as harvesters of at least part of the rent generated by *global* economic activity and as protectors of their own enterprises from unacceptable economic strategies pursued by other governments. In a very real sense, governments are assuming the role of strategic oligopolists, in a world economy dominated by the activities of large integrated MNEs." In this sense, the relevant governance structures that affect global rent distributions and the barriers to entry or exit with regard to the interface between MNEs and Nation States move to the forefront of the analysis.

The second section of the volume entitled "Inside the Multinational Enterprise" consists of three chapters which are dominated by a discussion of issues directly relevant to current day management of international business. The analysis begins by viewing the internationalization process of MNEs as an extension of the domestic value (added) chain of economic activity. The focus is on the strategic management of resources and competencies, owned or acquired by individual business enterprises, to achieve specified goals, whenever and wherever this involves the enterprises in value-added activities outside their national boundaries. Briefly stated, the main point made in Chapter 7 is that the value-added network of particular products and/or of the total activities of firms may be explained in principle by the value of

the OLI variables that influence the magnitude and pattern of foreign direct investment, as well as by the strategic responses of enterprises to these variables. Chapter 8 then addresses the importance of organizational innovation as a factor influencing the emergence and growth of MNEs and the structuring of their intra-firm relationships. Chapter 9 reviews collaborative relationships which enterprises may establish with foreign firms, paying special attention to joint ventures and strategic business alliances. Taking both an economic (e.g. transaction cost minimizing) and a strategic perspective, Dunning addresses the question to what extent it is possible to identify the determinants of the various forms of inter-firm relationships. Empirical evidence on inter-firm relationships is still somewhat sparse, however, Dunning foresees that this topic is likely to become a major subject for research in the 1990s considering the increased useage of cooperative inter-firm ventures as a "first-best organizational form" designed to spread financial risks and enhance global economic allocative efficiency, as well as providing a means of acquiring new assets and capabilities. The emphasis of the analysis is shifted from a more standard type of bilateral transactional relationship to a more pluralistic approach. Externalizing various transactions internationally through inter-enterprise collaboration liberates e.g. funds for additional research and development activities which may enhance the individual competitive positions of enterprises, and Nation States alike, participating in global value-added networks. The basic proposition is that in order to survive, MNEs and Nation States require resources that can be obtained efficiently only by interacting with other enterprises and Nation States that own or control these resources. If it may be the case that positioning in the network assures network participants a strategic benefit relevant to their global competitive advantage positions, then such strategic benefits may be possibly missused for purposes of entry deterence. Consequently, the aspect of switching costs as opposed to transaction costs and the economic theory of externalities may become more relevant in the future analysis of multinationality if the evolving network structures become too inflexible.

Part Three of the book, "The Impact of MNE Activity", comprising Chapters 10 to 19 is the longest part of the monograph. These chapters are largely issue oriented and discuss the main important consequences of MNE activities for the global economy and for the respective host and home countries of enterprises. The range of topics covered in this section is quite impressive. The question arises, "Where and how do governments enter into the picture?" In

these chapters the author illustrates how various OLI configurations facing enterprises and countries lead to increasing competition between firms and industries - and hence among Nation States affecting the political objectives of countries based upon MNE activity as part of an economic and social system. Consequently, the role of national governments in the global competitive race is becoming more, rather than less, critical. As the industrial structure of the industrialized countries tends to converge, governments are becoming more competitive in their macro-organizational and trading strategies. These chapters will be of special interest to readers interested in policy-oriented aspects of multinationality.

Part Four deals with the "Implications for Policy". The Chapters 20 and 21 changes the focus of analysis from MNEs to governments as the unit of analysis. Chapter 20 reviews the changing attitudes of home and host governments towards MNE activities. One finds that the nature of such relationships from a unilateral perspective have undergone profound changes. "While in the 1960s and 1970s, the main thrust of governments was to maximize the direct economic rent from inward investment and to ensure that MNEs provided the right kinds of resources and capabilities to promote their economic development, in the 1980s and 1990s, governments are increasingly viewing MNEs as a means by which they can upgrade the competitiveness of their domestic resources and capabilities and evolve a pattern of development which is consistent with their long-term dynamic comparative advantage (Dunning, p. 545)." Chapter 21 discusses the need for some kind of supra-national or multi-lateral response against systematic market failure - especially cross-border market failure connected with activities of MNEs. Unilateral government responses towards MNEs will not always suffice to counteract any negative potential uncertainties, externalities, and possible scale and scope effects that may arise. Collective (i.e. collaborative) action by countries will be needed either at the regional or international level to level the playing field. In view of this Dunning (p. 588) argues, "...that the existing international machinery for regulating cross-border commerce needs a complete overhaul to take account of the transnationalization of production and the activities of global companies."

In Part Five, "Looking Forward", the final Chapter 22 serves as a platform for a brief review of the dynamics of international production and the author's speculation on the future course and characteristics of MNE activity, anticipating many of the future problems. Will an

increase in hybrid forms of cross-border transnational relationships increase or decrease efficiency? Given their economic consequences, under what circumstances will enterprises and Nation States choose to cooperate, rather than compete, with one another? In Dunning's (p. 615) own words, "The developing interface between governments, MNEs and markets and the ways in which MNEs shape or are shaped by the interface are, perhaps, the two most critical questions likely to engage the attention of the international business scholar in the next decade or so." As Dunning (p. 549) earlier asserts, however, "There is no (and never has been) one set of optimum policies that governments can adopt towards, or as a result of, MNE activity, which holds good for all nations for all times."

This monograph covers such an enormous range of aspects concerning the phenomenon MNE and their interface with Nation States that it is quite difficult to do justice to all the findings in the framework of a review. Many points raised would deserve a more detailed analysis, as the author himself is well aware. This is not to understate, however, that there is much valueable material in this volume. The survey chapters, are quite comprehensive in their coverage. There can be no question that this volume represents a major contribution and landmark study to the field and is an extremely useful book for those who want a thorough balanced scholarly review of what is currently known on the subject, as well as where it is going. Just the same, although well-researched and well presented, only the most intrepid reader is likely to give it a cover-to-cover reading. In case a second edition is planned, it would be helpful to future researchers if the omitted studies mentioned in the main text by Haddan and Harrison (1992) on pages 425 and 468, Martinez (1987) on pages 224, 225, and 226, and Rugman (1988) on page 495 were included in the rather impressive reference listing (48 pages!).

With regard to the conceptual framework applied, it is easy to criticize such paradigms. Indeed their very strengths - the encompassing of a large set of disparate variables - makes any systematic testing very difficult if not impossible. Dunning's Eclectic Approach does succeed, however, in offering a detailed and highly fruitful "mapping" of the evolution of MNEs and the global economy based upon high intellectual sophistication that will inspire future research. Altogether I found this a most useful volume to review. As an old adage states: "The proof of the pudding is in the eating!"

Bernard Michael Gilroy

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